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# SBTs for Financial Institutions

## Draft target validation criteria feedback summary

May 19<sup>th</sup>, 2020

9:00 am – 10:30 am EDT

Online Webinar



# SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

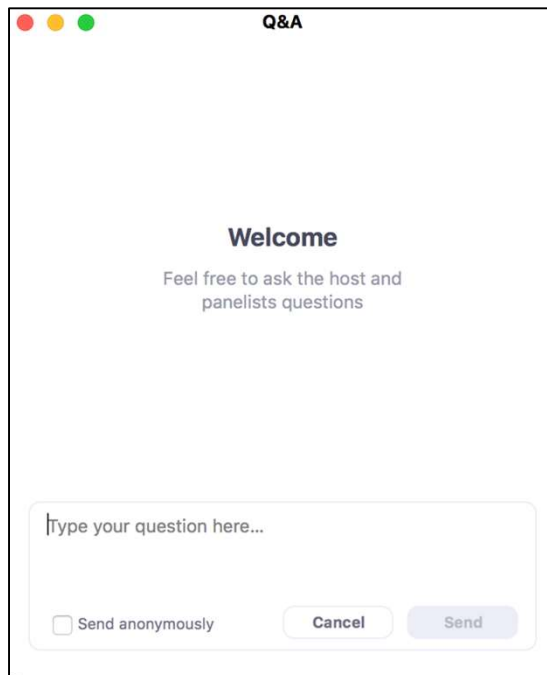
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## Welcome

A screenshot of a Q&A interface. At the top, there are three colored circles (red, yellow, green) and the text "Q&A". Below this, the word "Welcome" is centered, followed by the text "Feel free to ask the host and panelists questions". At the bottom, there is a text input field with the placeholder "Type your question here...". Below the input field, there is a checkbox labeled "Send anonymously", a "Cancel" button, and a "Send" button.

Q&A

**Welcome**

Feel free to ask the host and panelists questions

Type your question here...

☐ Send anonymously

This webinar is being recorded. Slides and recording will be posted to our website. They will also be emailed to you.

There will be time for questions at multiple points throughout the webinar.

**Please type your questions into the Q&A box.**

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## Today's Speakers



**Nate Aden**  
Senior Fellow  
**World Resources Institute**



**Chendan Yan**  
Associate  
**World Resources Institute**

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## Agenda for Today

| Topic   | Time   |
|---|--------|
| Overview of SBT finance framework and project updates | 10 min |
| Summary of feedback from in-person workshops          | 10 min |
| Summary of stakeholder survey feedback                | 40 min |
| Questions and discussion                              | 25 min |
| Next steps in framework development process           | 5 min  |

# Science-based targets for financial institutions

In 2018, the SBTi launched a project to help financial institutions align their lending and investment portfolios with the ambition of the Paris Agreement.

The project audience includes universal banks, pension funds, insurance companies and public financial institutions.



## SBTi-Finance Framework | Committed financial institutions

- *ABN Amro Bank N.V.*
- *Actiam NV*
- *Allianz Investment Management SE*
- *Amalgamated Bank*
- *ASN Bank*
- *Australian Ethical Investment*
- *AXA Group*
- *BanColombia SA*
- *Bank Australia*
- *Bank J. Safra Sarasin AG*
- *BBVA*
- *BNP Paribas*
- *Capitas Finance Limited*
- *Chambers Federation*
- *Commercial International Bank Egypt (SAE) CIB*
- *Credit Agricole*
- *DGB FINANCIAL GROUP*
- *Fubon Financial Holdings*
- *FullCycle*
- *Grupo Financiero Banorte SAB de CV*
- *Growthpoint Properties*
- *Hannon Armstrong*
- *Hitachi Capital Corporation*
- *HSBC Holdings plc*
- *ING Group*
- *KLP*
- *La Banque Postale*
- *London Stock Exchange*
- *Mahindra & Mahindra Financial Services Limited*
- *MetLife, Inc.*
- *MP Pension*
- *MS&AD Insurance Group Holdings, Inc.*
- *Moody's Corporation*
- *Novo Banco, SA*
- *OXI-ZEN Solutions SA*
- *Pension Danmark*
- *Principal Financial Group, Inc.*
- *Raiffeisen Bank International AG*
- *Societe Generale*
- *Sompo Holdings, Inc.*
- *Standard Chartered Bank*
- *Storebrand ASA*
- *Swedbank AS*
- *Swiss Re*
- *T.GARANT BANKASI A.*
- *Teachers Mutual Bank*
- *Tokio Marine Holdings, Inc.*
- *Tribe Impact Capital LLP*
- *TSKB*
- *Vakifbank*
- *Westpac Banking Corporation*
- *YES Bank*
- *Yuanta Financial Holding Co Ltd*
- *Zurich Insurance Group Ltd*

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## SBTi-Finance Framework | Project partners and roles

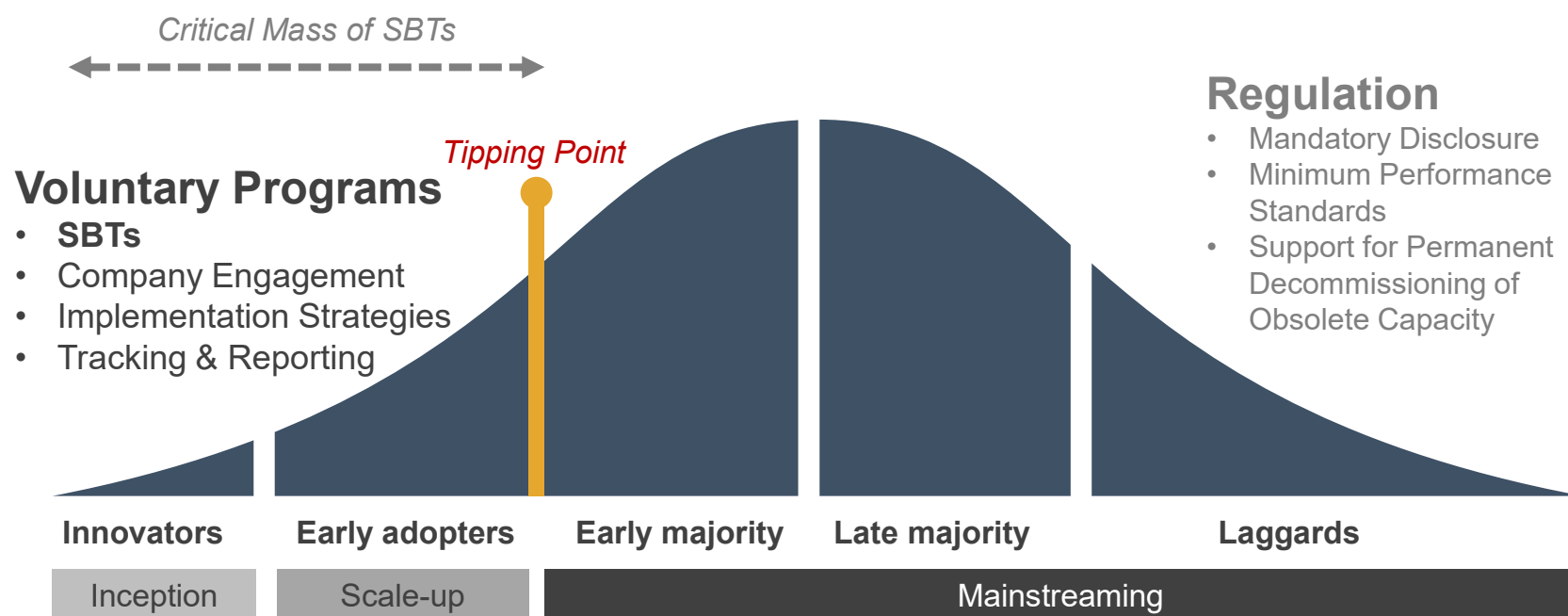
### *Managing Partner*



### *Technical Partner*



## SBTi-Finance Framework | Tipping point theory of change



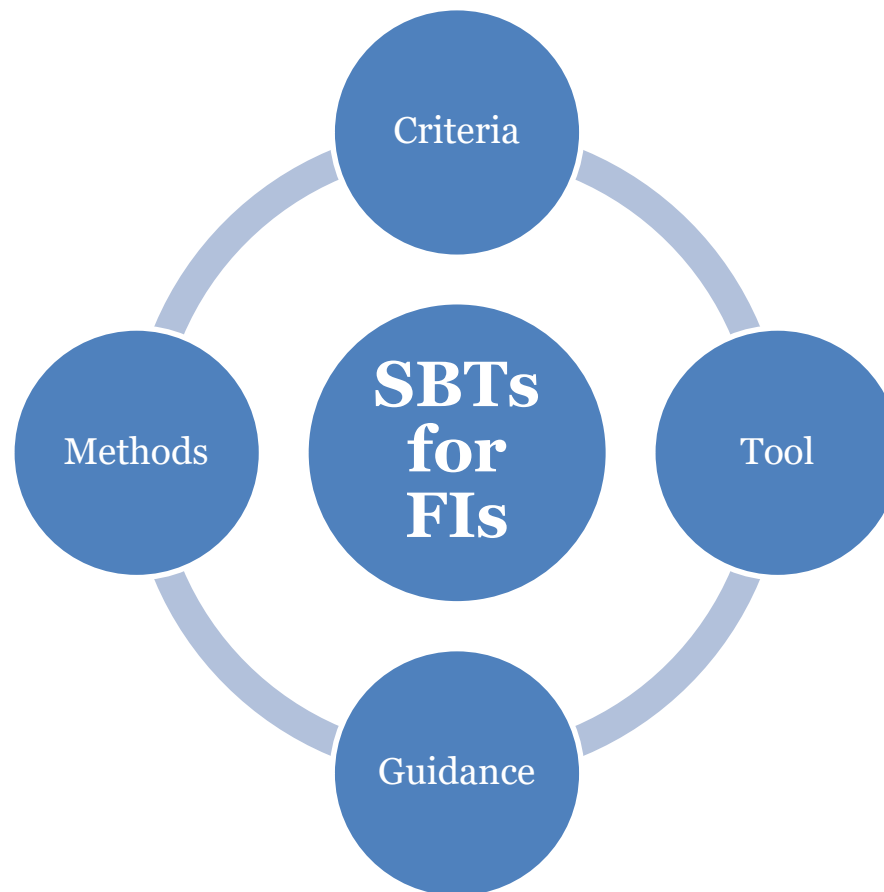


## SBTi-Finance Framework | Scope

| Included  | Outside of Current Scope  |
|---|---|
| <b>Scope 1 and 2 science-based target methods, criteria, and guidance</b>       | Impact assessment (pending data and evidence availability)                |
| <b>Scope 3 target methods, criteria, and guidance ('how much')</b>              | Additionality (quantification or attribution without sufficient evidence) |
| <b>Disclosure of implementation strategy</b>                                    | Ex-post tracking  |
| <b>Flexibility on actions to achieve targets</b>                                | Implementation requirements ('how')                                       |
| <b>Engagement strategies (via Portfolio Coverage &amp; Temperature Scoring)</b> | Leakage remediation   |
|   | Evaluation of strategies' cost effectiveness                              |

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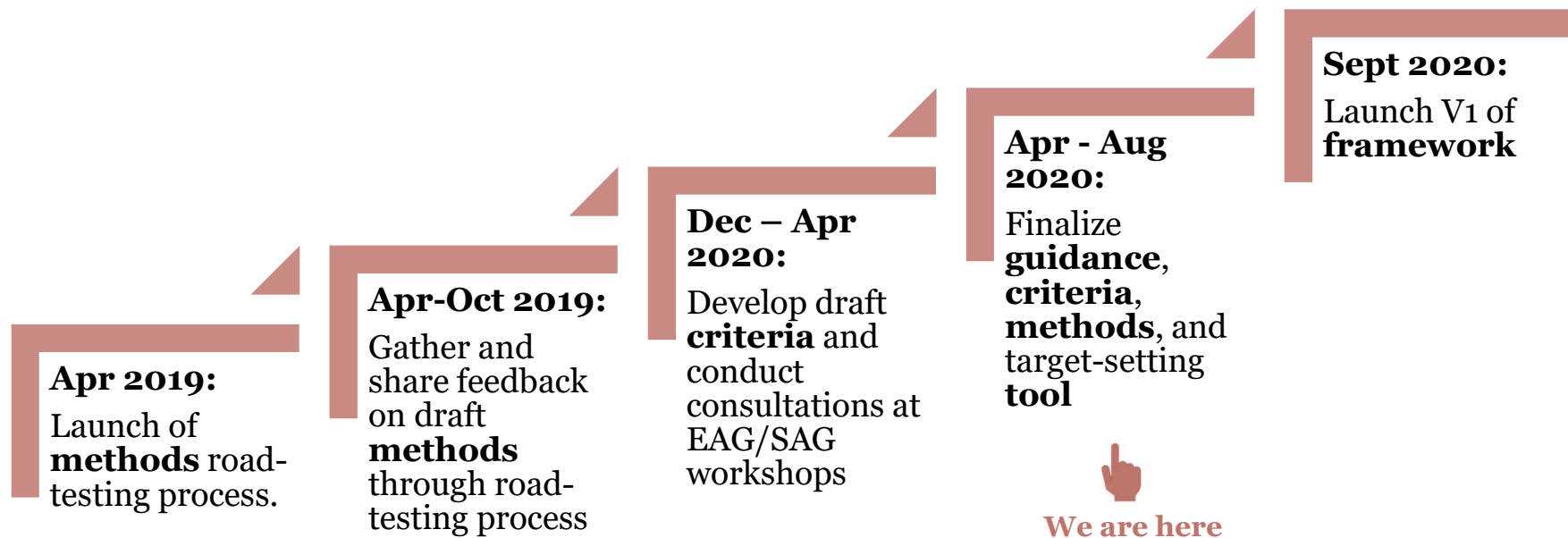
## SBTi-Finance Framework | Framework components



## SBTi-Finance Framework | Mapping methods to asset classes

| Asset Class                                  | Method                                | Description  |
|--|---------------------------------------|--|
| Real Estate                                  | Sector Decarbonization Approach (SDA) | Emissions-based physical intensity targets are set for non-residential buildings' intensity and total GHG emissions.   |
| Mortgages                                    | SDA                                   | Emissions-based physical intensity targets are set for residential buildings' intensity and total GHG emissions.   |
| Electricity Generation Project Finance       | SDA                                   | Emissions-based physical intensity targets are set for electricity generation projects' intensity and total GHG emissions.   |
| Corporate Instruments (equity, bonds, loans) | SDA                                   | Emissions-based physical intensity targets are set at sector level within the portfolio for sector where sectoral decarbonization approaches are available.                              |
|  | PACTA                                 | Sectors are assessed at individual business activity level for select activities.  |
|  | SBT Portfolio Coverage                | Financial institutions engage a portion of their investees (in monetary or GHG emissions terms) to have their own science-based targets such that they will reach 100% coverage by 2050. |
|  | Temperature Rating                    | Financial institutions apply temperature rating method to come up with base- and target-year temperatures (e.g., 2.6°C in 2019 and 1.7°C in 2025).                                       |

## SBTi-Finance Framework | Project milestones



## SBTi-Finance Framework | Temperature alignment method & tool

### Temperature Scoring Protocols

#### Open source

Translating targets to temperature scores & portfolio coverage

Developed by

- WWF
- CDP

### Alignment Method & Target Setting Tool

#### Open Source

Enable investors to align portfolios to °C goal / portfolio coverage

Action companies

Developed by

- SBTi-Finance
- Technical consultants

### Investor solutions

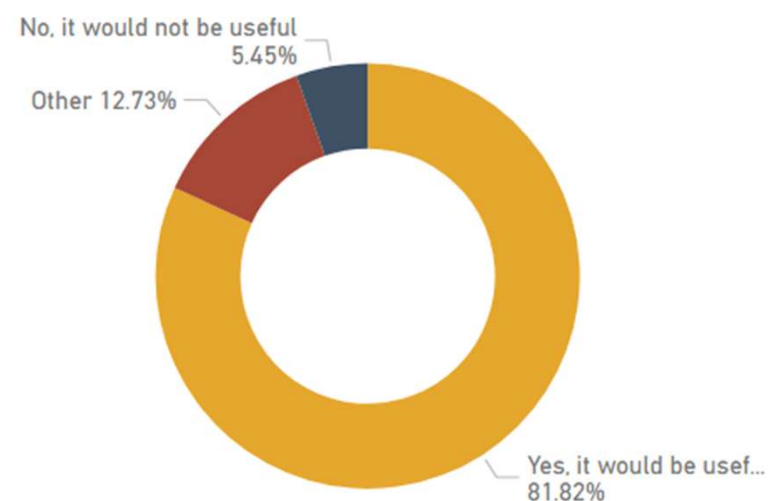
#### Commercial

Integrating data sources & workflow

ISS, Bloomberg, CDP, MSCI, etc...

Submit emission reduction target to SBTi for validation

EU Paris Agreement Alignment Disclosure Regulation

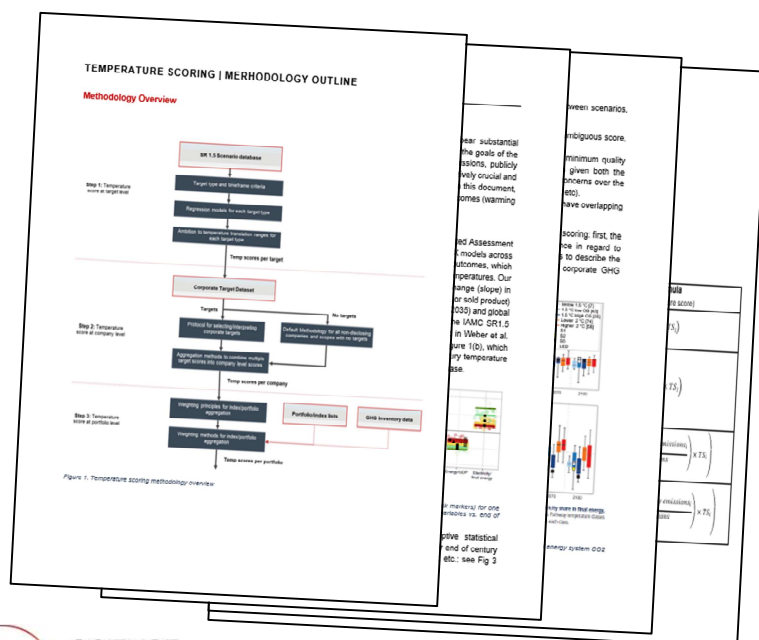


**81%** of the criteria survey respondents find that a portfolio temperature alignment method and/or tool would be useful for financial institutions' target development processes

# SBTi-Finance Framework | Temperature alignment feedback

1. Methodology will be open for review and comment. Participants can review [draft document](#)

2. [Online Survey](#): ask specific methodological questions e.g. default methodology, portfolio aggregation steps;  
→ Closes this week!



## Temperature Scoring Consultation Survey

Through the Science Based Targets initiative (SBTi), a large number of companies have been able to set approved science-based targets since 2015. Building on the SBTi's work, CDP, WWF and the SBTi FI working group are developing a methodology to translate all emissions reduction target information publicly disclosed by companies into temperature outcomes (in °C).

The temperature scoring approach presented here expands the temperature assessment of short- and medium-term corporate ambition against a wide range of end of century (2100) temperature outcomes, between 1.5-5°C. It therefore aims to translate reported corporate targets into long-term temperature trajectories.

7. For companies who do not disclose targets publicly, or whose public target does not meet the criteria, a default scoring approach is used. What is your preferred approach to default scoring? \*
- ☐ Companies with no valid targets, should not be scored
  - ☐ Uniform default score applied to all companies, regardless of sector
  - ☐ Sector by sector default score, taking account of different BAU pathways for each sector
  - ☐ Default scores should only be applied at a company level, but not used for portfolio level scoring
  - ☐ Default scores should not be applied at a company level, but only included for portfolio screening
  - ☐ Other

# Summary of feedback from the draft target validation criteria consultation process



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## In-Person Feedback | London workshop

In February 2020, SBTi-FI hosted workshops in London and Tokyo to gather feedback from stakeholders on draft target validation criteria.

- On February 11th, 2020, SBTi FI hosted a full day workshop in London to get input on the key criteria most germane to FIs.
- Around 60 stakeholders participated in the workshop
- The team met with the Expert Advisory Group in the afternoon to reflect on the criteria discussions in the morning and discuss the development of the framework.

The following revisions were made to the draft criteria and informed the subsequent stakeholder survey:

- Made decisions on method hierarchy and alternative methods
- Target setting on scope 3 category 1-14 should only be recommended
- Revised options in the portfolio screening and/or target setting requirement and the implementation and strategy reporting questions
- Added questions about the role of the criteria to prevent portfolio shifting and encourage direct engagement
- Revised fossil fuel financing questions





## In-Person Feedback | Tokyo workshops

*The workshops were generously hosted by local partners:*



After the workshops, the following revisions were made to the draft criteria and informed the subsequent stakeholder survey:

- Added coal exclusion policy as an option to the fossil fuel policy question



## Summary of survey

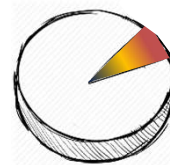
After incorporating feedback from the in-person workshops, SBTi-FI distributed a survey on the draft target validation criteria in April 2020.



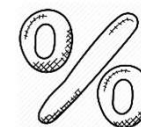
### SBT-Finance Target Validation Draft Criteria and Tool Development for Stakeholder Consultation

This survey presents the key questions related to the draft SBTi-Finance criteria for assessment of financial institutions' scope 1, 2, and 3 emissions reduction targets and reporting of implementation plans. Together with the target-setting methods, and guidance document, the criteria comprise the SBTi framework for financial institutions. The survey also includes questions on tool(s) that SBTi-Finance may develop to facilitate target setting. To address these questions, we have proposed multiple options for feedback and welcome your comments and/or additional suggestions.

**Before starting to answer questions**, please review this [background document](#) for important background information. This public consultation period will be open until April 30th (the original deadline has been extended). All individual responses will remain confidential and only aggregate results will be made public. For queries relating to this survey, please contact [Chendan.Yan@wri.org](mailto:Chendan.Yan@wri.org).



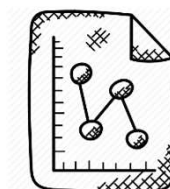
### *SBT Portfolio coverage method specifications*



### *Portfolio targets boundary requirement*



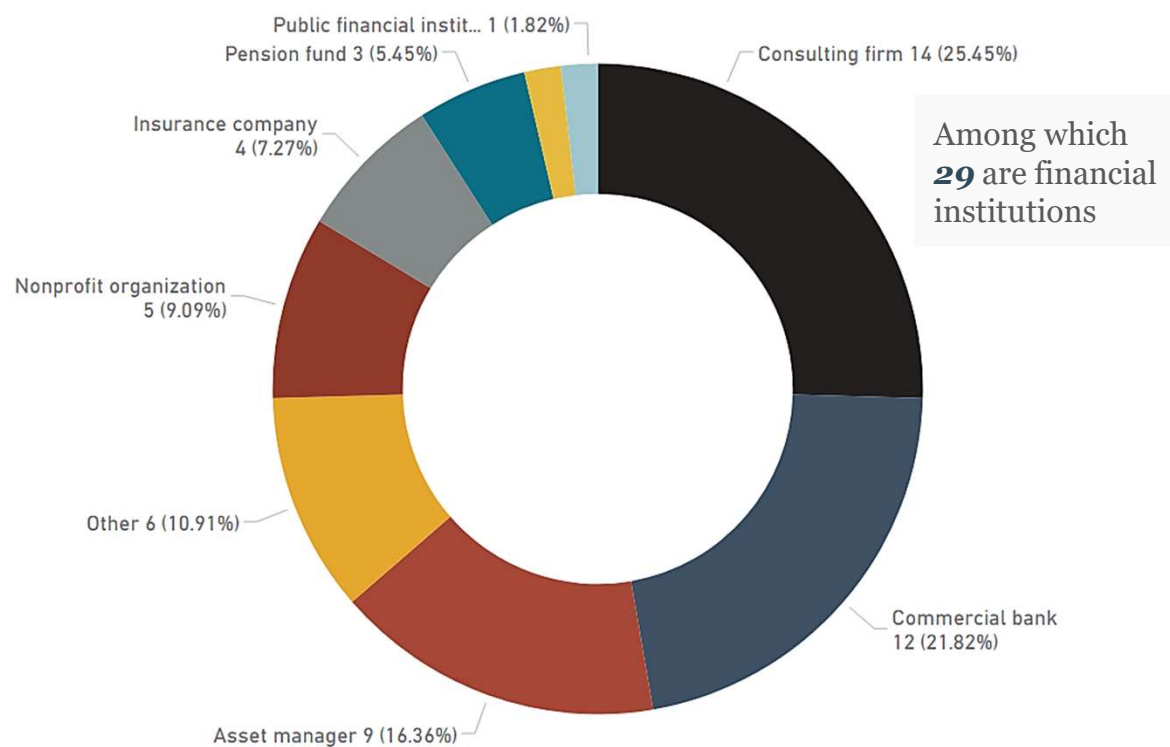
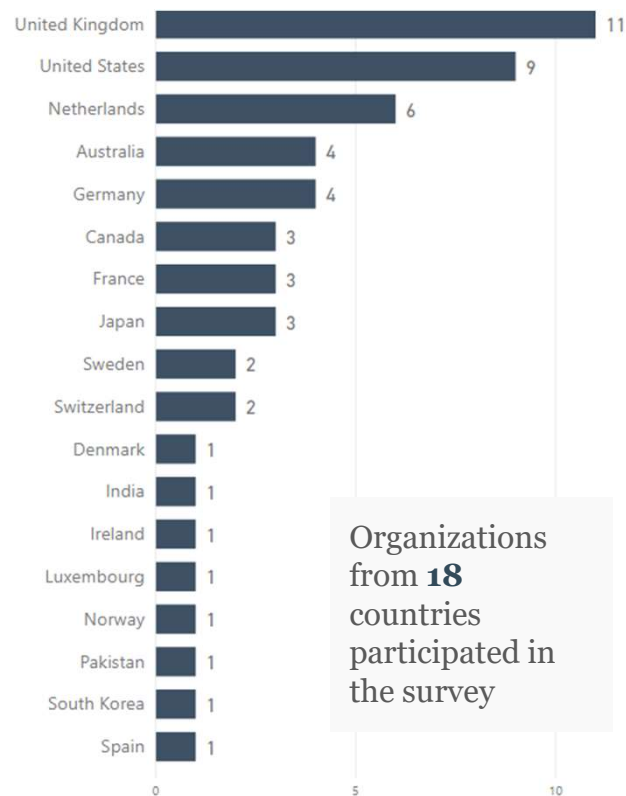
### *Fossil fuel financing*



### *Implementation strategy reporting and frequency*



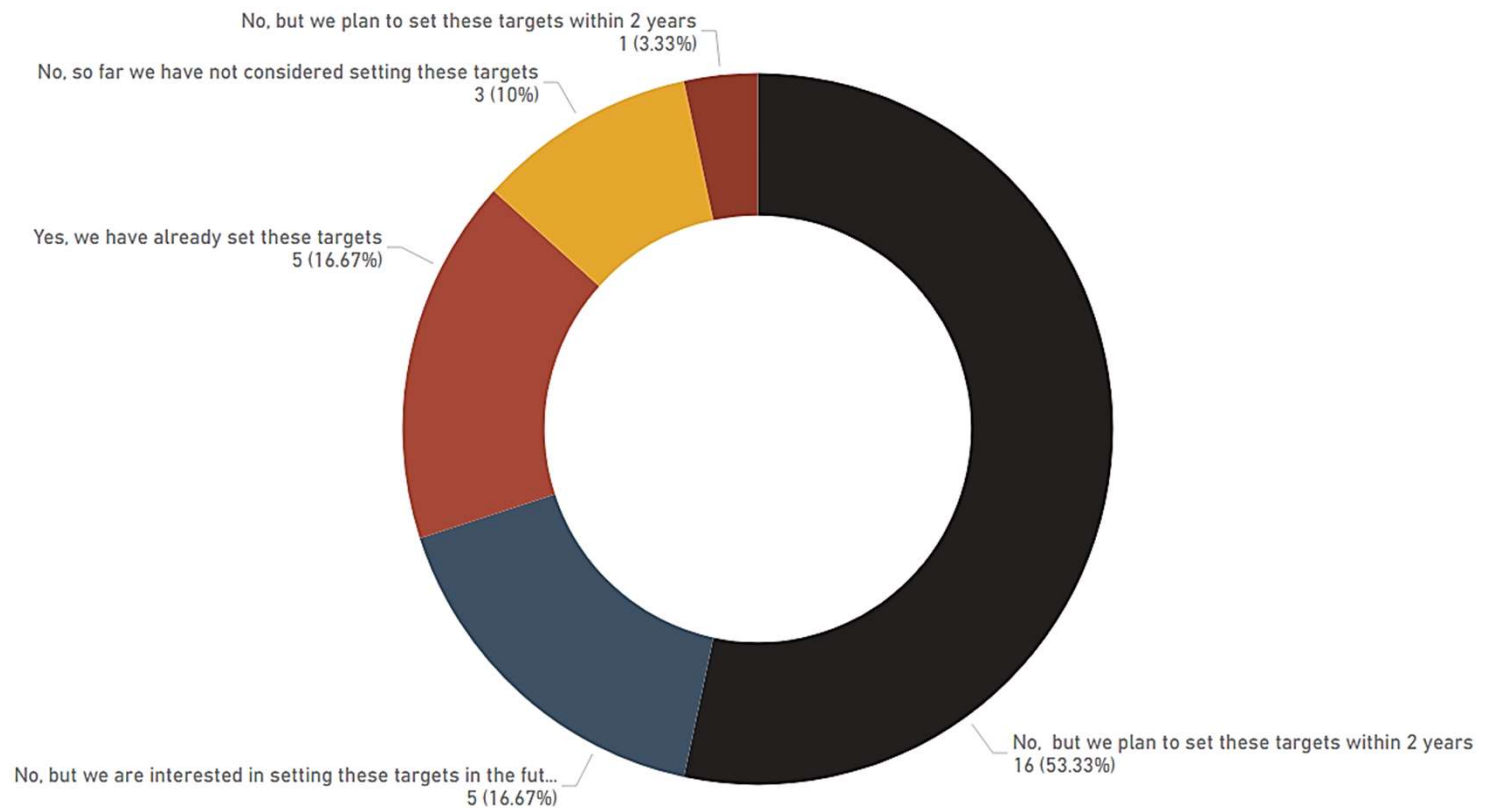
## Thanks to 55 global organizations that responded to the survey



Total responses: 55

## 90% of FI respondents have set or are interested in setting SBTs

**Q3:** Is your financial institution currently setting portfolio climate targets?



Total responses: 55

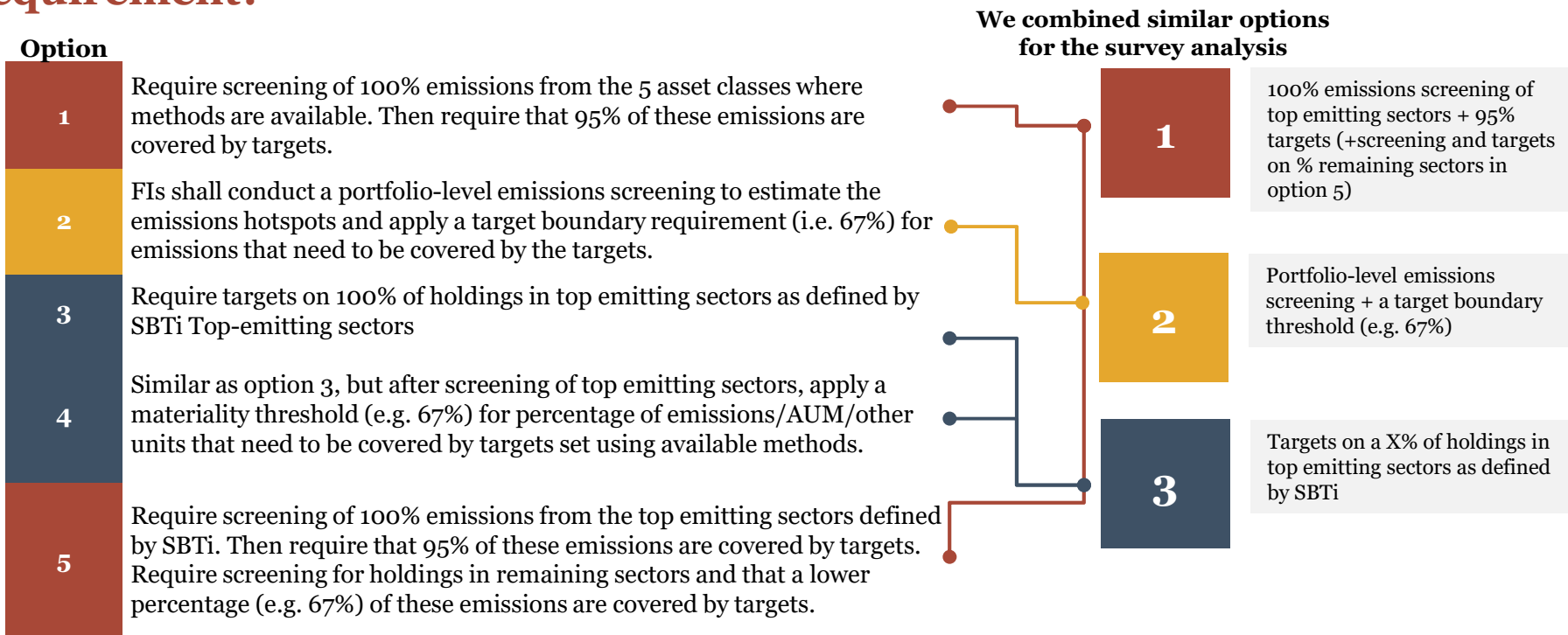
# **Q4: How to design the portfolio emissions screening/target coverage requirement?**



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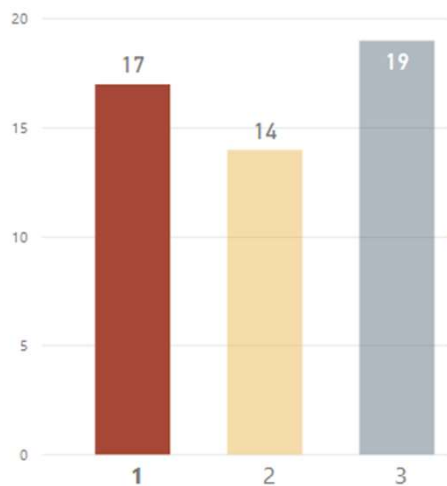
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## Q4: How to design the emissions screening/target coverage requirement?

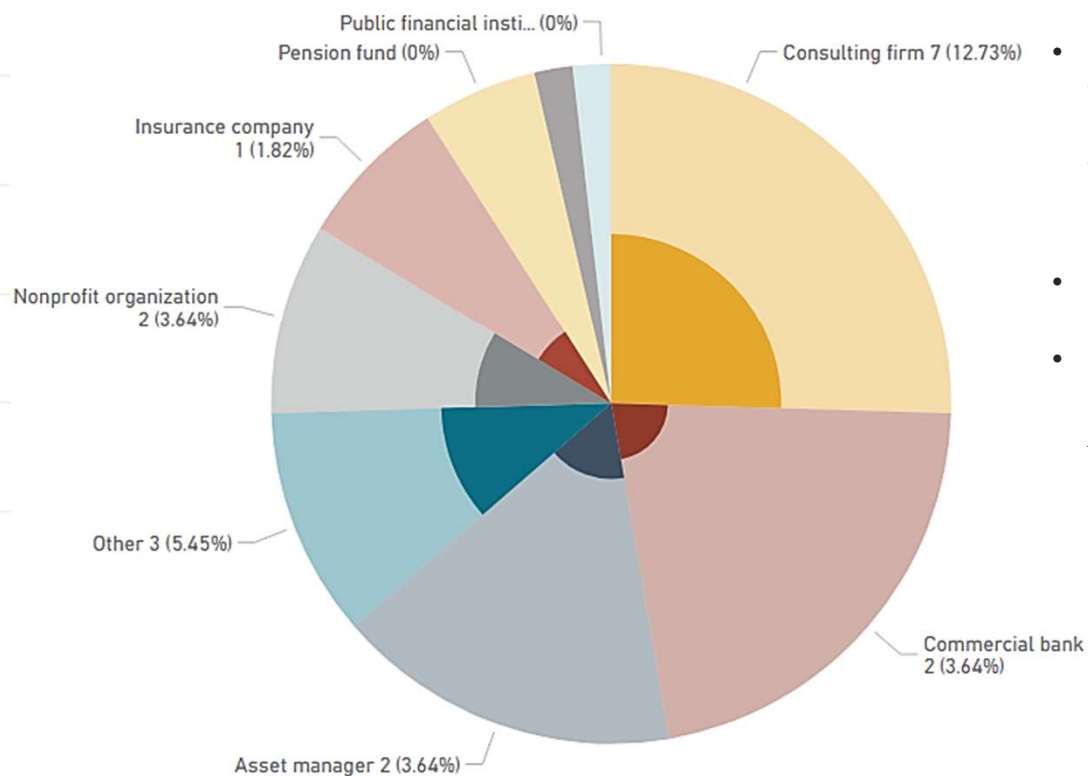


**Consultancies and other stakeholders prefer option 1**

**Option 1:** 100% emissions screening of top emitting sectors + 95% targets (+screening and targets on % remaining sectors in option 5)



**1**

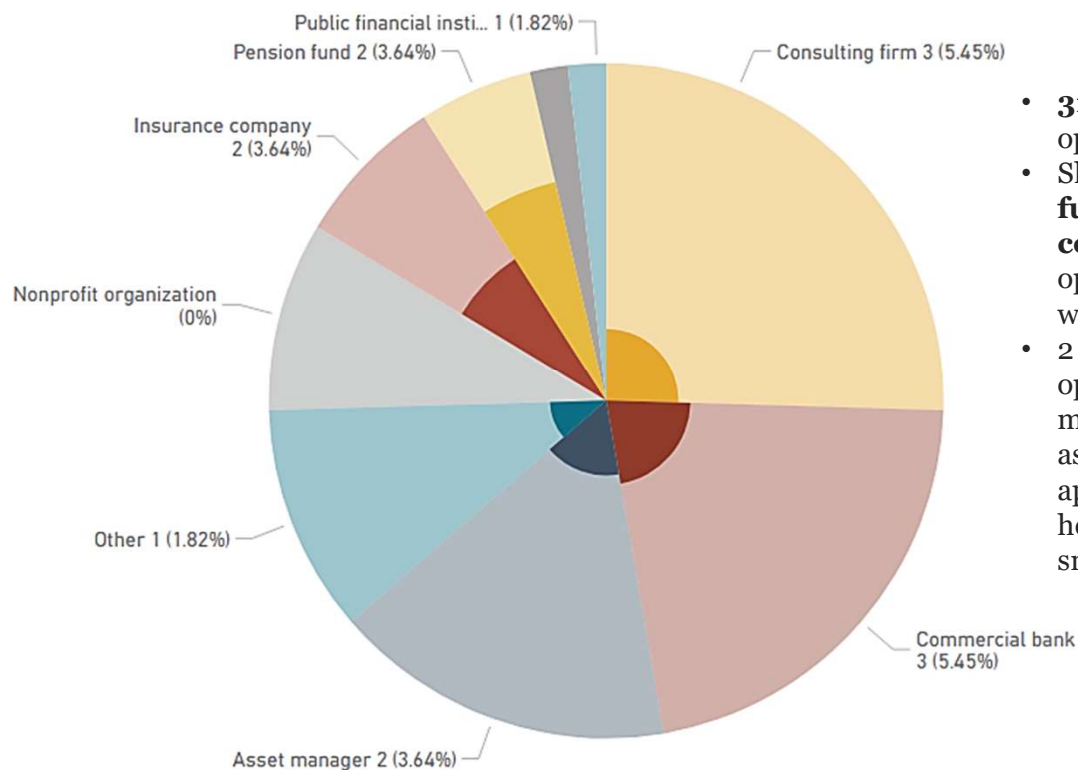
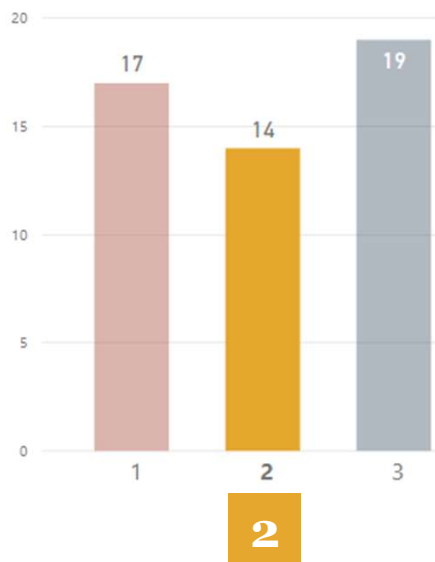


- Generally considered **the most comprehensive in terms of emissions coverage** for a whole portfolio alignment
- **17% of FIs** voted for this option
- 3 respondents proposed a screening based on AUM before emissions screening and/or target setting

Total responses: 55

**Asset owners have a stronger preference for option 2: portfolio level screening + 67% target boundary**

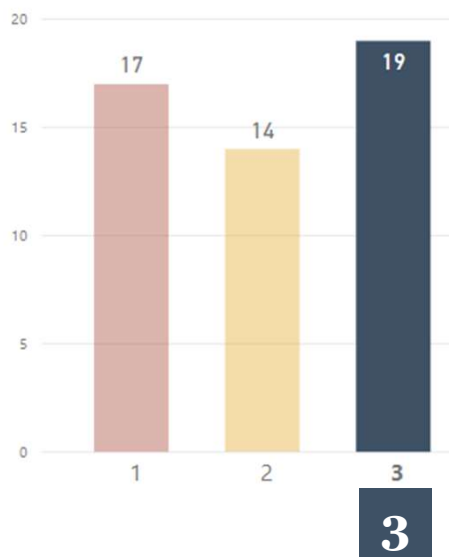
**Option 2:** Portfolio-level emissions screening + a target boundary threshold (e.g. 67%)



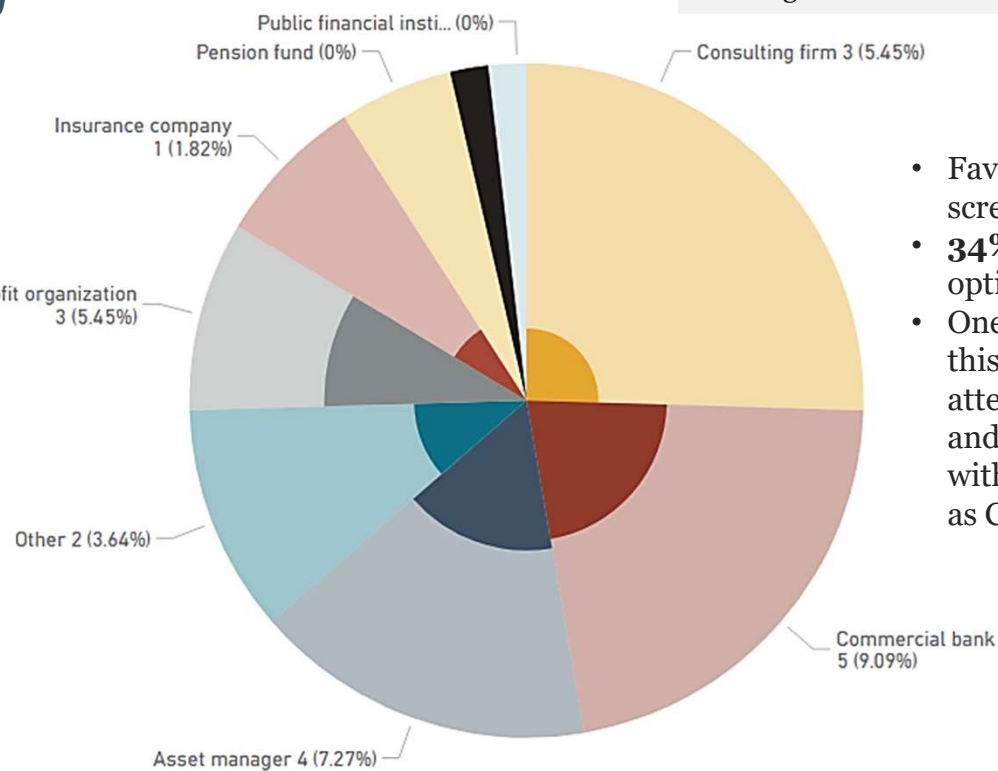
- **31% of FIs** voted for this option
- Slightly more **pension funds and insurance companies** voted for option 2, although reasons were not given
- 2 Asset managers voted for option 2, as not all asset managers use a sectoral asset allocation and that applying a threshold can help them focus efforts on a smaller number of clients.



**Commercial banks and asset managers have a slightly stronger preference for the top emitting sector-oriented approaches**



**Option 3:** Targets on a X% of holdings in top emitting sectors as defined by SBTi Top-emitting sectors



- Favored as no emissions screening is required
- **34% of FIs** voted for this option
- One bank commented that this approach helps focus attention on key sectors, and enables alignment with other initiatives such as Climate 100+.

**Q5: Is it necessary for SBTi-Finance criteria to prevent or minimize leakage?**



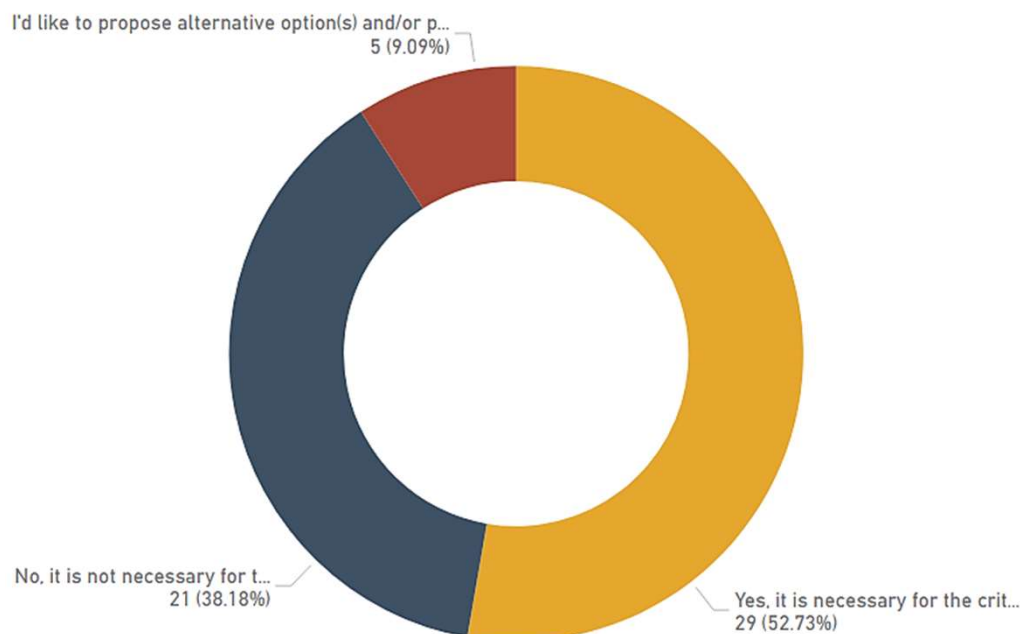
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***Responses are divided on whether the criteria should prevent leakage, with many clearly recognizing the difficulty to enforce such a restriction***

- ~40% of FIs voted for Yes.
- Though votes are divided, written comments show that respondents on both sides agree that it's good in theory but not practical for the criteria to prevent leakage.
- Ones voting for No further noted the infeasibility of setting a criteria around leakage and that attempts to minimize leakage would create added barriers that could disincentivize actions.

*“...it is necessary for SBTi to **communicate how minimising leakage is important** for FIs, although recognise it can not necessarily practical to drive this solely through the criteria.”*  
– one consulting firm



Total responses: 55

**Q6: SBT portfolio coverage targets are to be applied within asset classes (e.g., corporate equity and debt).**

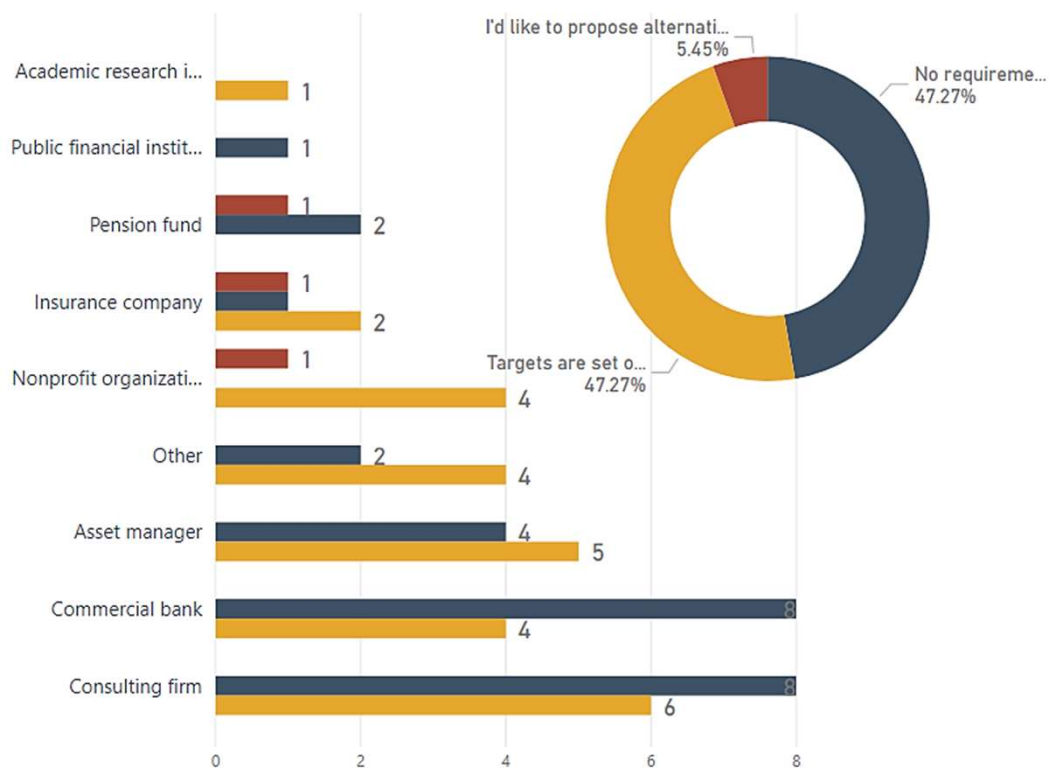
**To reduce leakage or portfolio shifting, should SBTi also require FIs' SBT portfolio coverage targets to be applied to specified sectors (i.e., the same sector in base and target year)?**



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***Respondents are divided on whether the asset-level SBT portfolio targets should also be applied on a sector level***



- 38% of FIs voted for yes.
- Specifically, *banks and pension funds* prefer that the target boundary remains flexible; reasons include sector level boundaries can be too prescriptive and that challenges in different business models need to be considered.
- Reasons for **voting yes** include:
  - Criteria should address intra-portfolio leakage with sector level methods (1 ESG benchmark organization)
  - Allows better alignment with real economy emissions reduction (1 consultancy)

Total responses: 55

**Q7: Is divestment an appropriate strategy for financial institutions to meet their SBTs?**



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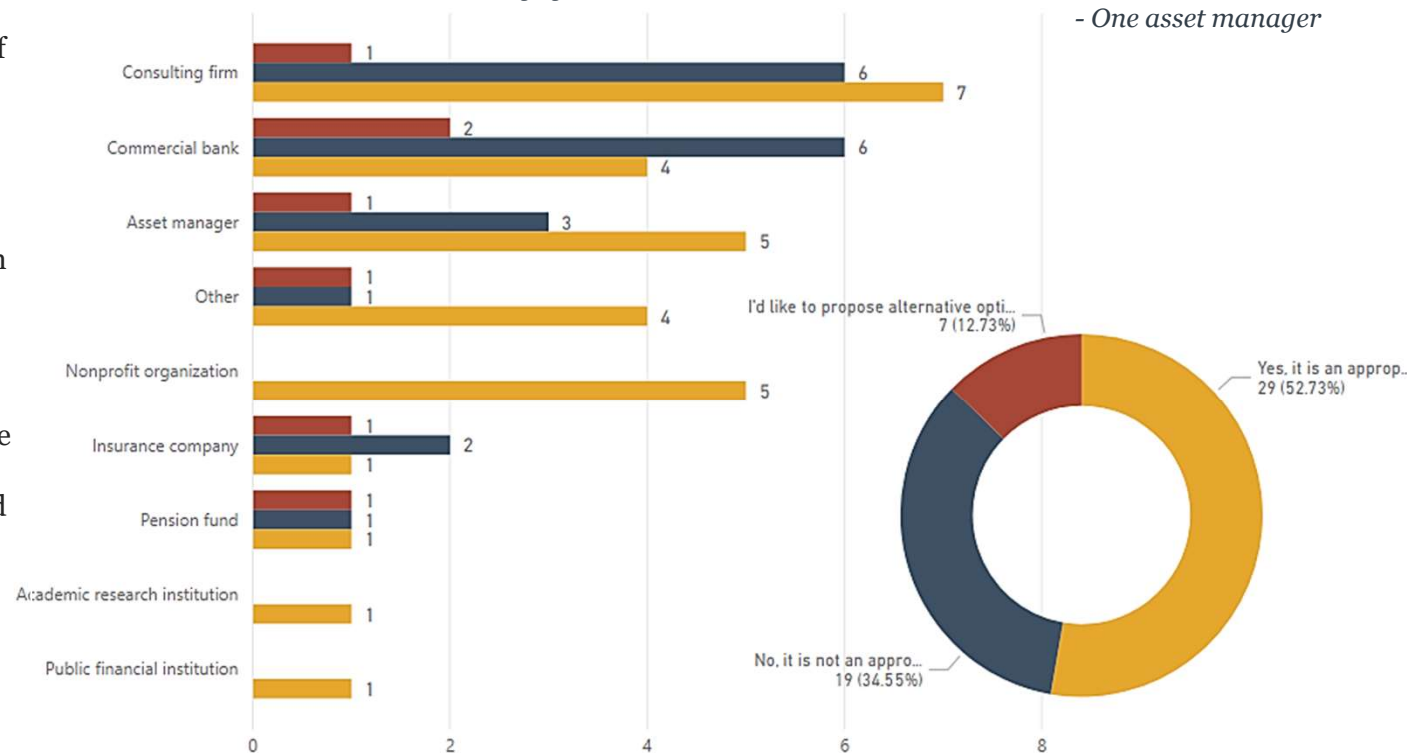
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## Divestment is a “last resort option”

- Responses are divided, with half of the respondents voting for Yes, esp. *asset managers, nonprofits and consultancies*.
- 66% of FIs voted for Yes.
- Respondents who voted for No think that divestment on its own has limited real world impact, would lead to leakage, and remove the ability to influence clients for transition.
- Respondents on both sides agree that it **can be effective when paired with engagement** and should remain on the table as a “last resort option”.

“Engagement should be the priority means to encourage emission reduction in the real economy. **Divestment should be considered as the last resorts** and under certain conditions for reducing portfolio emissions (e.g. the lack of progress after ongoing engagement).”

- One asset manager



**Q8: Is it incumbent on SBTi-Finance to focus on direct (engagement) rather than indirect impact strategies including such as divestment and portfolio shifting?**



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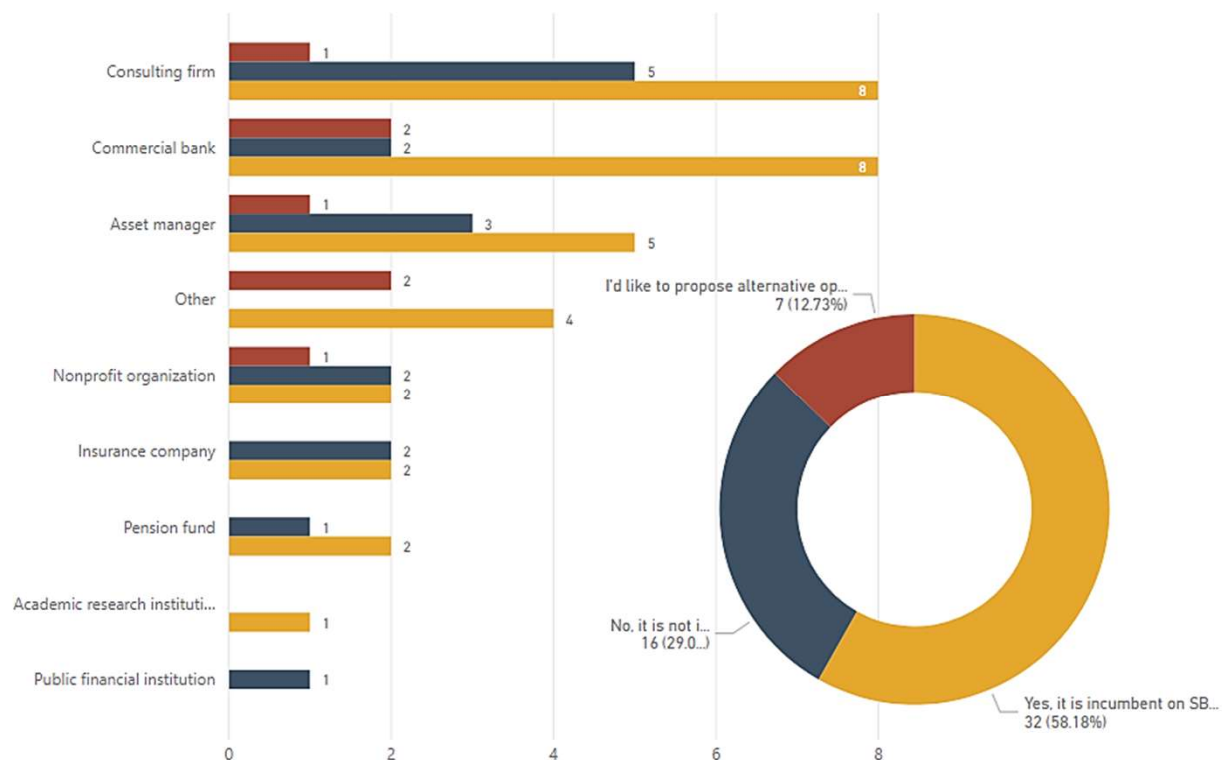


***“Engagement and divestment are complementary. The implicit threat of divestment can lend more power to engagement and stewardship.”***

- ~60% think it’s incumbent on SBTi to focus on engagement than indirect impact strategies, *esp. among banks, asset managers, and consultancies.*
- Strong consensus that engagement and indirect impact strategies are **complementary to each other**; one might be more applicable to certain sectors.
- **Clearer guidance** on format of the engagement is needed (e.g. commitment letter, sign on to a pledge, etc.)

*“Focusing on **direct engagement is the most data & evidence-based approach** this standard could take. The debate on the possible constraints applied to divestment would muddle the purpose of this standard, which is to develop a widely accepted framework to help financial institutions benchmark their progress to well below 2-degree warming threshold, and make it become unnecessarily prescriptive.”*

– One asset manager



**In the absence of methods for the fossil fuel sector, what alternative interim requirements should SBTi put in place?**



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**Q9. SBTi requires that FIs establish fossil fuel (oil, gas, and coal) exclusion/phase out policies as a safeguard**



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**58% of respondents agree that SBTi should require some sort of fossil exclusion or phase-out provisions.**

*“Coal policy is a given but again, banks have divested from coal and the effect in terms of coal-related emissions has been minimal. What has driven coal from the market is market price developments for renewable energy affecting demand that made coal uncompetitive in certain parts of the world. The same applies to oil and gas... **Only demand will take care of the fossil fuel markets.**”*

*- Commercial Bank*

## Key Points

Fossil fuel companies can play a central role in low-GHG technology development

Need to differentiate between [thermal] coal and oil and gas

Resources are available: capacity-based methods are available from PACTA and Carbon Tracker Initiative

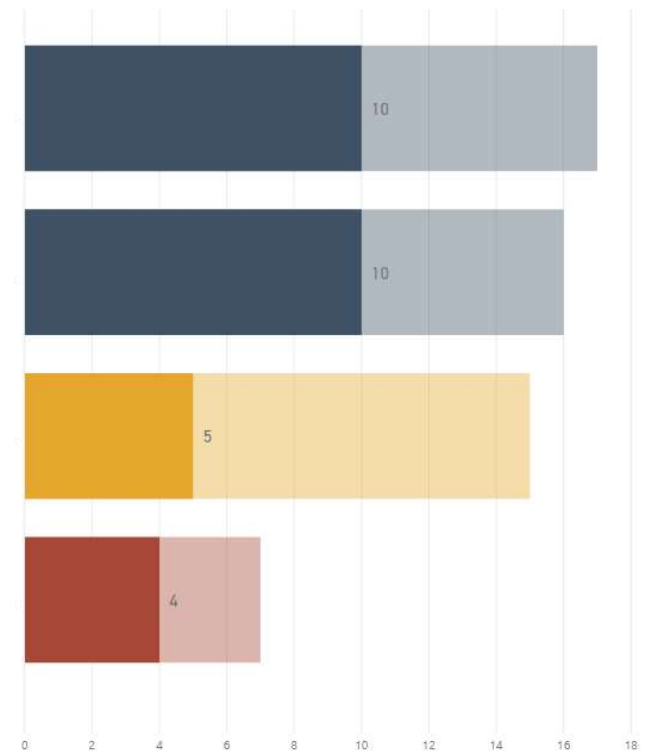
Distinguish between primary market activities providing new capital (IPO, financing) vs secondary market instruments

Yes, **coal** phase out in line with Paris Agreement.

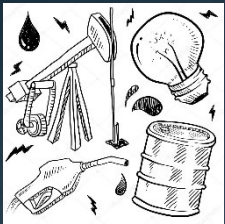
No, not a good interim option.

Yes, phase out of **coal, oil, and gas** in line with Paris Agreement.

Alternative option proposed.



Total responses: 55



**Q10.** SBTi requires that financial institutions disclose the portion of their investments (private equity, public equity, corporate bonds), direct project financing and lending or underwriting to fossil fuel (oil, gas, and coal) projects and companies for annual reporting, post target-setting.



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*80% of respondents agree that SBTi should require **disclosure of fossil fuel investment in annual reporting, post target***

## Key Points

Suggestion to establish materiality threshold for disclosure

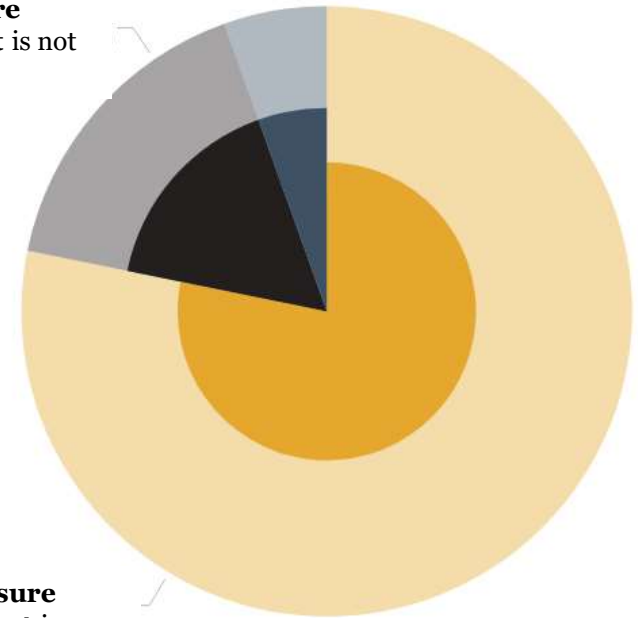
Need to differentiate among Fis: many banks already report but likely push back by asset managers

Reporting can be difficult depending on investment, lending, & underwriting classifications

Potential integration with PCAF on carbon footprint assessment, TCFD and CDP on reporting

Alternative option proposed.  
No, **disclosure requirement** is not a good option.

Yes, **disclosure requirement** is a good option.



Total responses: 55



**Q11.** Should FIs use the temperature alignment method for fossil fuel companies and set targets to align them to well below 2 degree/1.5 alignment within 5 years, e.g. 2025? Fossil fuel companies' scope 3 emissions are included in the boundary of their targets.



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Respondents were divided on whether FIs should use **temperature alignment method** to set <2° targets within 5 years, including scope 3

## Key Points

Need for portfolio alignment method finalization and additional information

Question of whether targets must be achieved or in place by 2025

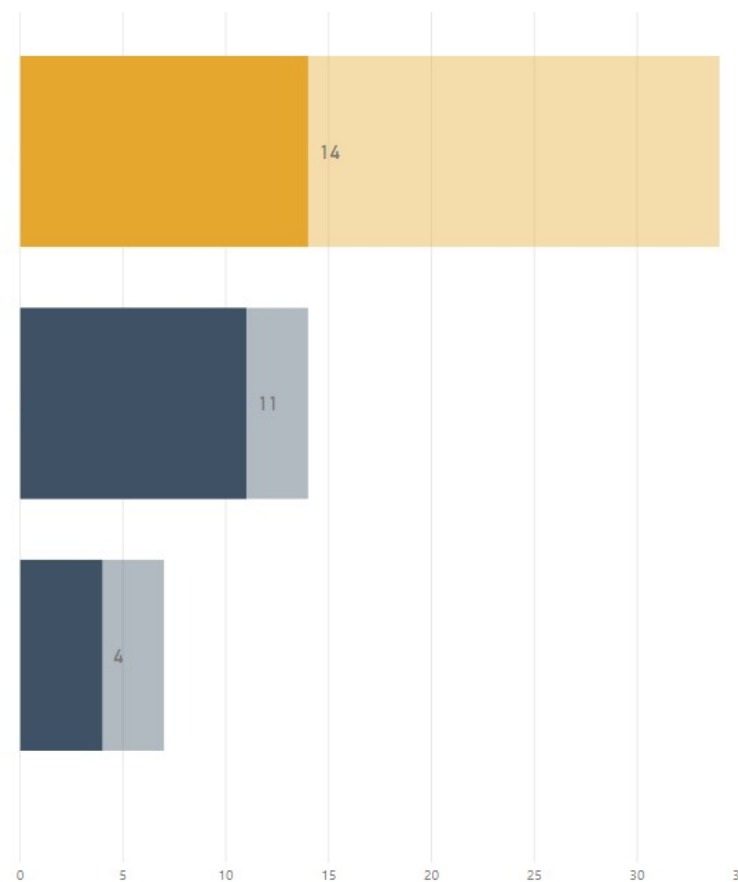
Difficulty for small banks with loans to SMEs due to data limitations

Suggested integration with other resources such as TPI, flexibility on timelines

Yes, **temp alignment targets** are a good option.

No, **temp alignment targets** are not a good option.

Alternative option proposed.



Total responses: 55





**Q12.** Should FIs use the SBT portfolio coverage method and engage fossil fuel companies in their corporate debt and equity portfolios to have approved SBTs within 5 years? Oil and gas companies should use the SBTi oil and gas method when it becomes available and scope 3 emissions will be included in the target boundary.





*Respondents had more consensus on whether FIs should use **SBT portfolio coverage method** to have approved SBTs within 5 years, including scope 3*

## Key Points

Contingency on SBT oil and gas method development

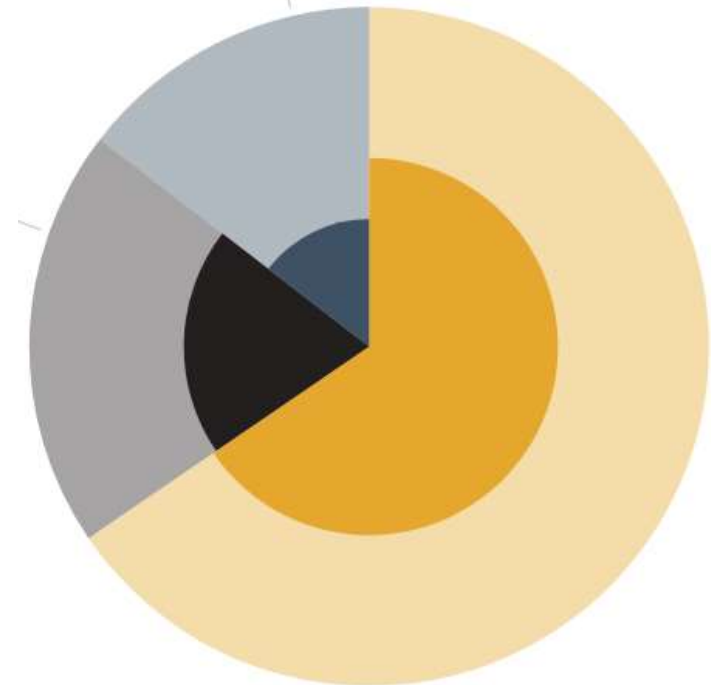
Idea of differentiating between oil and gas majors, NOCs, and small operators

Question of financial institutions' influence on portfolio companies

Suggestion that SBT portfolio coverage offers more direct engagement than temperature alignment, but both methods have a role

No, **SBT portfolio coverage targets** are not a good option.

Alternative option proposed.



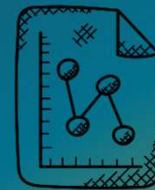
Yes, **SBT portfolio coverage targets** are a good option.

Total responses: 55

# How can financial SBTs best connect with the real economy?

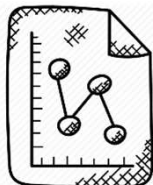


**Q13.** To maintain credibility and best ensure targets lead to impacts in the real economy, how should FIs' strategies to meet their SBTs be reviewed and publicly reported?



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*Respondents were divided on how  
FIs' strategies for achieving  
SBTs should be reviewed and  
publicly reported*

## Key Points

Need to specify granularity and format of reporting requirement

Suggestion of TCFD integration

Suggestion to include scope 3 inventory reporting and progress against scope 3 targets (as opposed to just actions and strategies)

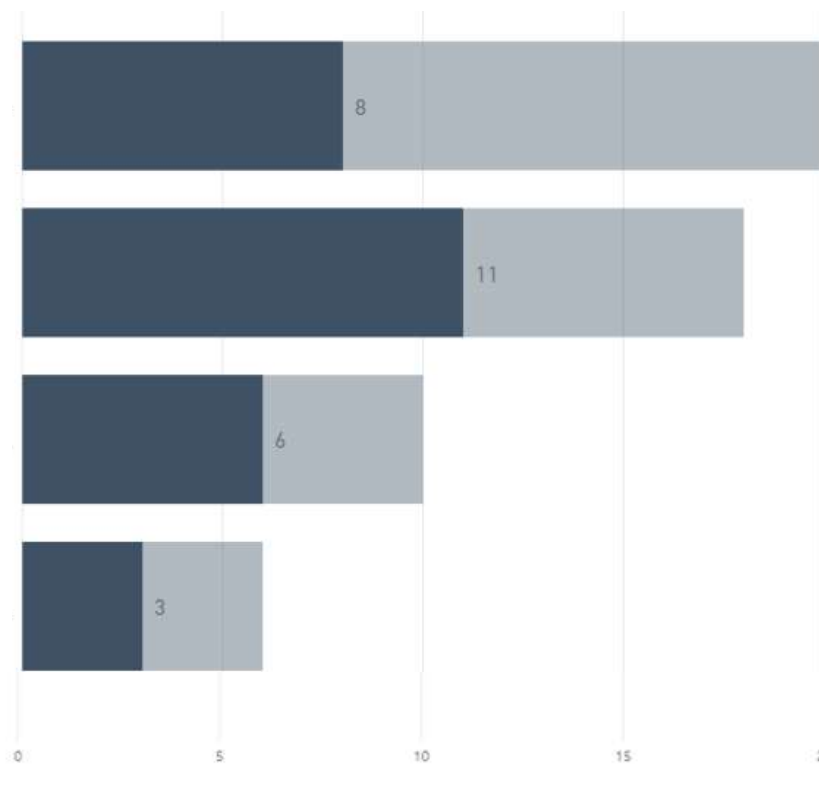
Suggestion to require reporting of failure of financial institutions to successfully affect actions of investees, not just successes

Strategies published with SBT, annual scope 1 and 2 reporting with actions.

After SBT approval, annual scope 1 and 2 reporting with actions/strategies.

Strategies validated by SBTi, annual scope 1 and 2 reporting with actions.

Alternate option proposed.



# Q&A



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## SBTi-Finance Framework | Project milestones

| Date               | Milestones  |
|--------------------|---|
| <b>May-June</b>    | <ul style="list-style-type: none"><li>• Draft guidance and alpha tool</li><li>• Criteria feedback summary &amp; revisions</li></ul> |
| <b>June-July</b>   | <ul style="list-style-type: none"><li>• Guidance webinar to launch feedback process</li><li>• Tool beta testing</li></ul>           |
| <b>July-August</b> | <ul style="list-style-type: none"><li>• Summary of guidance and tool feedback and revisions</li></ul>                               |
| <b>September</b>   | <ul style="list-style-type: none"><li>• Launch version 1.0 of framework</li></ul>   |

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## **SBTi-Finance Framework** | Opportunities for participation

### **SBTi-Finance Framework**

- Stakeholder list
- Guidance review
- Commit to setting an SBT
- Submit target for review (after Sept)

### **SBTi-Finance Temperature Alignment Method**

- Review method
- Complete survey

### **SBTi-Finance Tool Development**

- Join working group
  - User developers
  - Data & service providers
- Beta test tool
- Integrate tool





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**Thanks for joining!**

**If you haven't already, join project mailing list:**

**[www.sciencebasedtargets.org/financial-institutions/](http://www.sciencebasedtargets.org/financial-institutions/)**



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